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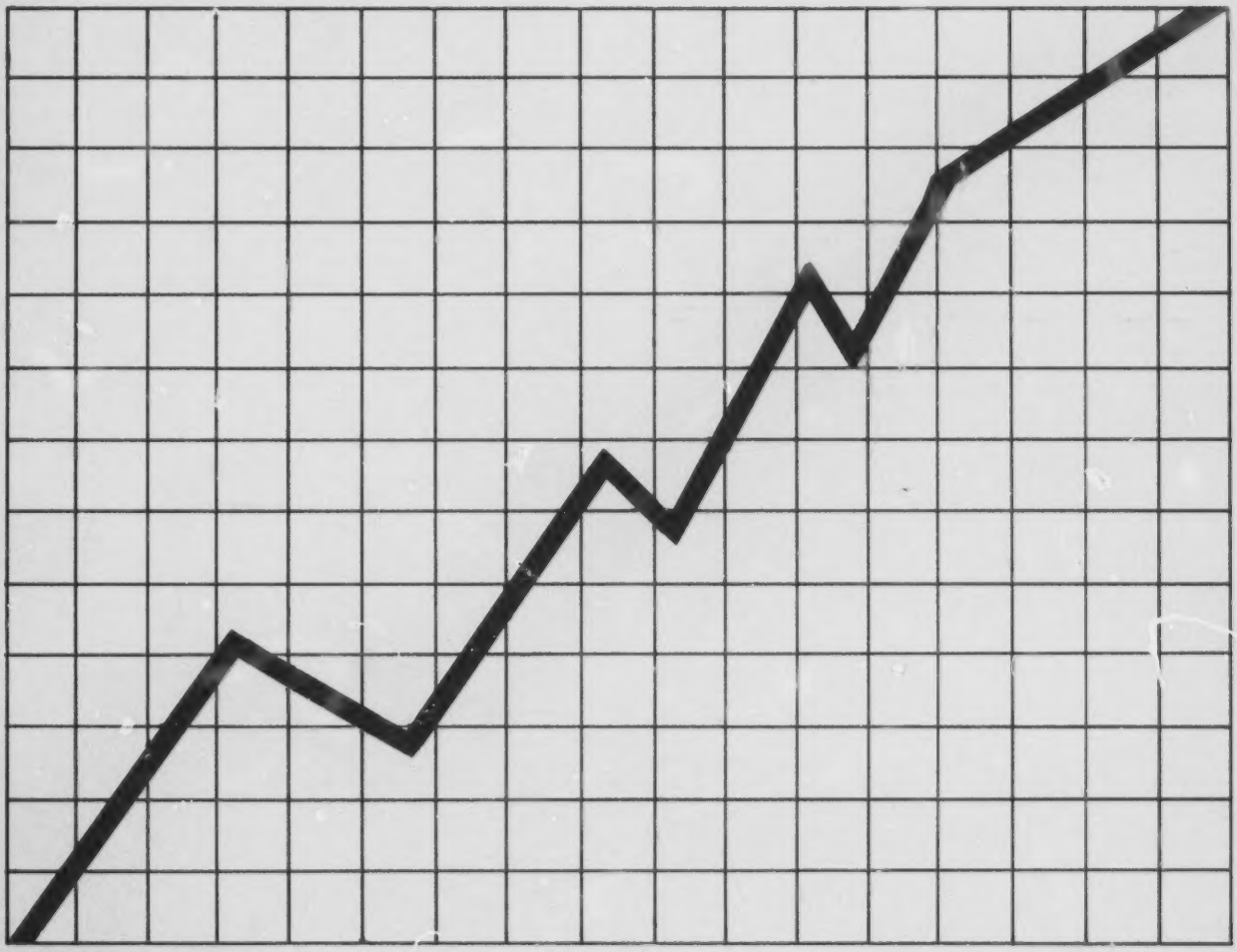
1983 Management Report

For Retail Hardware Stores



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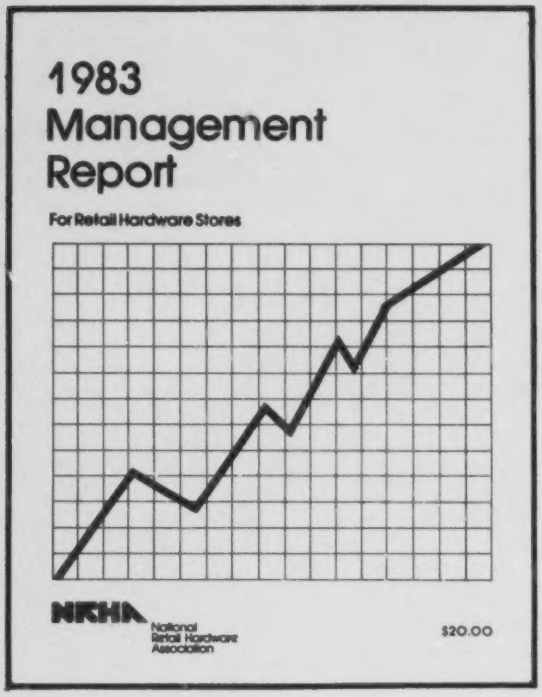

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770 N. High School Road Indianapolis, Indiana 46224
(317) 248-1261

The Research Services Department

Bradley T. Farnsworth, Director
Sandra C. Anderson, Industry Research Manager
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Introduction

Management Report

The 1983 Management Report presents financial operating data for the retail hardware industry. The Report is designed to fulfill several objectives: to assess the financial performance of the retail hardware industry in 1982; to provide comparative financial data so that retailers can measure their performance against other industry members; to provide a frame of reference for profit planning enabling hardware retailers to continually improve performance levels. Additionally the Report provides an excellent means for manufacturers, wholesalers and other interested parties to gain a better understanding of the retail hardware industry.

Four Major Sections

The Management Report is divided into four major sections: Average Operating Results, Strategic Profit Model, Departmental Sales, and New Store Data. All results are presented as averages, computed by adding all data for a given item and then dividing by the total number of entries.

Average Operating Results includes data on sales, operating expenses, profits and financial performance. Income statement items are presented as a percentage of net sales and balance sheet items as a percentage of total assets.

The **Strategic Profit Model** combines the principal elements of a firm's operating statement and balance sheet into a single profit planning equation, evaluating operating performance on return on net worth.

In **Departmental Sales** information is presented on the percent of stores handling major departments found in retail hardware stores. The percent of net sales, sales floor, inventory and cost of goods sold are outlined both for handling firms only and for an average store profile. Departmental productivity is compared by calculating the gross margin return on inventory investment for each department.

In **New Store Data,** information on the required planning phases for new store development is presented.

Type of Store

Many factors influence a retail hardware store's cost of doing business. Therefore, Report data are shown in different ways in order that individual operators may make meaningful comparisons. Information contained in Average Operating Results is presented for the following store types:

- High and Low Profit
- Sales Volume Size
- Sales Floor Size
- Type of Ownership
- Trade Area Size
- Store Location: Part I
- Store Location: Part II
- Geographical Region
- Number of Stores

Methodology

The Management Report is made possible only through the cooperation of the retail hardware men and women who provided us with detailed information on their operation. Confidential mail questionnaires were sent to hardware store operators the end of February. Eight hundred and fifteen usable returns were received by June 1, 1983 in time for inclusion in this year's Report.

All dealer survey forms were edited for completeness by NRHA's Research Services Department Staff. Forms were coded for computer processing and **all individual firm identification removed.** The data was keypunched by a service bureau and then processed by our own data processing department.

As thanks for their contributive efforts, each hardware store operator who submitted detailed financial information was provided a personalized computer analysis. This customized analysis compared each contributor's results with averages of all other stores in the same sales volume, sales floor, geographical area, and store location categories, as well as with the averages for the entire sample.

One Of A Series

The National Retail Hardware Association publishes detailed Financial Operating Reports for three types of hardlines retailers. Studies which are available in addition to the hardware store Management Report are The Bottom Line for home centers and the Lumber/Building Materials Financial Report for consumer-oriented outlets. Each segment of the concentrated hardgoods market is provided with its own cost-of-doing business comparison manual.

For Assistance

Assistance and aid in interpreting the 1983 Management Report may be obtained from your regional Hardware Association.

Highlights

Net sales are up to $545,194 — a 5.9 percent increase over the average last year. Participating dealers reported an increase in sales of only 2.57 percent, however, which indicates that the average is up due to the participation of higher volume stores. Dealers experienced a decrease in the cost of goods sold which led to a higher gross margin. Expenses were up across the board, however, and therefore net profit was down from 3.31 percent in 1981 to 2.81 percent in 1983.

Type of Hardware Store	Net Sales $	Sales Increase Over 1981* (%)	Margin (%)	Net Profit On Sales (%)	Net Profit On Investment (%)	Stock Turns x
All Hardware Stores	545,194	+2.57	35.60	2.81	10.57	2.43
Low Profit	408,916	-6.87	33.79	(4.28)	(26.88)	2.06
High Profit	483,510	+7.06	38.28	9.34	24.33	2.23
Sales Volume Size						
Under $250,000	173,581	- .64	36.55	1.34	4.12	1.72
$250,000 to $499,999	357,919	-3.54	36.39	2.18	7.96	2.02
$500,000 to $749,999	606,444	+3.69	36.00	3.71	13.16	2.45
$750,000 or more	1,305,124	+5.75	34.90	3.17	12.40	2.91
Sales Floor Size						
Under 3,000 Sq. Ft.	276,246	+9.19	36.09	2.98	8.95	2.34
3,000 to 4,999 Sq. Ft.	365,162	+5.24	35.50	3.45	12.03	2.34
5,000 to 9,999 Sq. Ft.	577,156	-3.23	36.63	3.02	10.24	2.33
10,000 Sq. Ft. or more	1,317,559	+5.41	34.96	2.78	11.81	2.73
Type of Ownership						
Proprietorship	246,373	+3.71	34.55	3.38	10.14	2.07
Partnership	375,447	+ .72	34.36	4.62	15.35	2.49
Corporation	633,527	+2.53	35.76	2.65	10.29	2.47
Trade Area Size						
S.M.S.A.-Central City	716,127	+4.20	38.13	3.59	14.45	2.85
S.M.S.A.-Suburban	676,434	+2.40	37.58	2.37	8.76	2.43
Cities-10,000-50,000	665,754	+5.22	35.55	2.63	10.78	2.61
Rural Areas Under 10,000	450,958	+ .53	34.26	2.74	9.65	2.22
Store Location: Part I						
Downtown	478,270	+1.69	35.44	2.99	9.96	2.39
Suburban	750,997	+3.27	36.23	3.21	13.26	2.60
Rural	454,853	+4.19	33.53	1.94	7.56	2.31
Store Location: Part II						
Shopping Center—Neighborhood	585,114	+2.95	36.18	1.56	7.26	2.53
Shopping Center—Community or Regional	597,675	+4.75	36.81	3.83	14.83	2.33
Free-Standing—No Stores Adjacent	656,654	+5.12	33.44	3.02	11.56	2.60
Free-Standing—Stores Nearby	520,638	+ .66	36.01	3.38	11.22	2.41

*As reported to us by contributing dealers.

Monthly Sales

Shown below are the industry average percent of sales by month. As usual the highest sales are in December and the early summer months. In order to even sales out somewhat dealers should take advantage of special promotions and co-op advertising programs during the early part of the year.

	%
January	6.6
February	5.8
March	7.2
April	8.6
May	10.0
June	9.1
July	8.9
August	8.2
September	8.1
October	8.5
November	8.4
December	10.6

Average Operating Results

Income Statement Data

The Income Statement presents in a single format revenue derived from the sale of merchandise, and expenses incurred to produce these sales. All Financial Report Income Statement data are presented as a percent of Net Sales, computed by dividing each item by the Net Sales.

Net Sales Volume — The dollar amount of cash sales plus credit sales less total deductions.

Total Deductions — Goods returned, discounts allowed, sales taxes and other taxes paid to secure licenses.

Cost of Goods Sold — Inventory First of the Year plus Purchases plus Freight In plus Shop Labor (Non-Employee) minus Inventory End of the Year equals Cost of Goods Sold.

Margin Before Rebate or Dividend — The difference between Net Sales and the Cost of Goods Sold.

Margin After Rebate or Dividend — Net Sales minus the Cost of Goods Sold plus any Purchase Rebate or Patronage Dividend received by the dealer.

Salaries — Owners, Officers, Managers — The compensation including bonuses paid to owners, officers and store managers who work in the business.

Salaries/Wages — Other Employees — The compensation, wages and bonuses paid to all other employees.

Federal and State Payroll Taxes — Federal and State Withholding, Unemployment Compensation and FICA Taxes.

Group Insurance — All premiums paid to insure employees for health and accident protection.

Benefit Plans — The employers' share of cost for employee welfare/ benefit plans — life insurance, retirement, education, etc.

Heat, Light, Power and Water — All utility expenses incurred in the operation of the business.

Building Repairs and Maintenance — All charges for incidental repairs which keep the building in ordinarily efficient operating condition.

Equipment Repairs and Maintenance — All charges for incidental repairs which keep the equipment in ordinarily efficient operating condition.

Leasing Expenses (Non-Occupancy) — All costs involved in leasing furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Office Supplies and Postage — The cost of all materials used for the firm's accounting records.

Rent or Ownership in Real Estate — Rent is the amount paid for properties used in the business. Ownership includes current year taxes, insurance, depreciation and interest on mortgages on land and buildings used in the business.

Advertising and Promotion — Newspapers, circulars, calendars, radio and television spots, dealer's share of cooperative advertising and materials used in sales events.

Donations — All gifts given from the business operation to charity.

Telephone and Telegraph — For expenses incurred in the operation of the business.

Bad Debts — Uncollectable debts.

Delivery Expenses (Other than Wages) — All expenses incurred in the operation of delivery equipment; gas, tires, etc.

Insurance — Premiums paid to insure all assets against fire, theft, etc.

Taxes — All taxes on stock, fixtures, delivery equipment, etc.

Depreciation — All depreciation on furniture, fixtures, machinery and office equipment, delivery equipment, etc.

Credit Card Expense — Bank charges for processing credit card sales.

Interest — The amount of interest paid on borrowed money for all types of notes, loans.

Store and Shop Supplies — The costs of all supplies used in the operation of the store.

Legal and Accounting — The cost incurred for auditing, inventory count, collectors and legal consultation.

Computer Services — Any fees for outside computer services, plus all costs (excluding payroll) for establishing and maintaining a system in-house.

Dues and Subscriptions — Fees for memberships and subscriptions, and expenses for employee training.

Travel, Buying, Entertainment — All expenses incurred in business trips and the entertainment of guests.

Miscellaneous Services — All fees for services such as laundry, garbage disposal, snow removal, etc.

Unclassified — All expenses not classified under other headings.

Net Operating Profit — Return on sales before Other Income and Income Taxes, when expressed as a percent of Net Sales, indicates the percent return on each dollar of sales.

Other Income — Cash discounts earned, cash over or short, interest dividends, finance charges, commissions, tax allowances and rental and sundry income.

Net Profit (Before Income Tax) — The net return from the operation of the business.

Balance Sheet

The balance sheet is a statement of financial position at a given point in time; the Report presents year-ending balance sheets. The balance sheet equation is expressed as Assets equal Liabilities plus Net Worth.

Current Assets — Cash; notes receivable in the current year; accounts receivable (less reserve for doubtful accounts); merchandise inventories and other assets with a defined short-term life of one year — all prepaid expenses.

Investments — Assets with a long-term life such as stocks and bonds or real estate which is not needed to operate the business.

Fixed Assets — Assets with a long-term life which are needed to carry out a firm's normal business activities. The Financial Report includes only tangible assets at book value less accumulated depreciation. Included in addition to land, buildings and leasehold improvements are delivery equipment, machinery and office equipment, furniture, fixtures, etc.

Current Liabilities — All debts which are due within one year — accounts payable, current portion of notes payable, accrued payroll and other taxes, insurance, interest, etc.

Long-Term Liabilities — All debts, mortgages, and loans which mature or are due more than one year from the date of the balance sheet, deferred income taxes.

Net Worth — Total assets minus current and long-term liabilities equals net worth or the owner's equity in the business.

Financial Ratios

The financial position of a firm is determined from a review of its financial statements — the income statement and the balance sheet. The analysis of the financial performance of a firm views the interaction of the two financial statements through the measurement of proportions within the structure of the two statements. These proportions are tested by ratio analysis.

Profit On Investment

—Computed by dividing Net Profit Before Taxes by Net Worth; expressed as a percentage.

—Measures the return on the owner's invested capital and is the modern criterion for profitability. Today's hardware retailers should program their operations to achieve a rate of Return-On-Investment of at least 15% after taxes.

Active Owner's Return

—Computed by adding Owner's Salary to Net Profit Before Taxes and then dividing by Net Worth; expressed as a percentage.

—Measures the total return to owners and is applicable to proprietorships, partnerships and small corporations. This ratio allows comparison between operators with different philosophies regarding salaries and profits.

Current Asset Ratio

—Computed by dividing Total Current Assets by Total Current Liabilities; expressed in "times".

—Measures the ability to pay short-term Debts with Assets that may be converted to cash within a period of time corresponding to the maturity of the claims. The traditionally accepted minimum is 2 to 1 or 2.0 times.

Quick Asset Ratio

—Computed by dividing Current Assets minus Inventory by Current Liabilities; expressed in "times".

—Measures the ability to pay Current Debts from Current Assets without relying on the sale of inventory. The traditionally accepted minimum is 1.0 times.

Total Debt to Tangible Net Worth

—The Leverage Ratio, computed by dividing Total Liabilities by Tangible Net Worth; expressed as a percentage.

—Measures the owner's investment in comparison to financing provided by creditors and gives an indication of a firm's ability to acquire more debt.

Stock Turn Times

—Computed by dividing Cost of Goods Sold by Average Inventory at Cost (Beginning Inventory plus Year-end Inventory divided by two); expressed in "times".

—Measures the actual physical turnover of the inventory. A low rate of inventory turnover indicates the likelihood that a portion of the book value of the inventory includes obsolete or unusable items. A high ratio indicates efficiency in buying and inventory control; however too high a ratio may indicate the loss of potential sales due to inadquate stocking. Retail hardware store operators should achieve three turns or more per year.

Sales to Inventory

—Computed by dividing Net Sales by Average Inventory; expressed in "times".

—Measures merchandising efficiency and supplements the Stock Turn ratio in determining whether proper inventory control is achieved through scheduled and balanced buying.

Average Inventory Per Sq. Ft. of Sales Area

—Computed by dividing Average Inventory by Square Feet of Sales Area; expressed in dollar value of inventory at cost.

—A rough measure of merchandising efficiency.

Net Sales to Accounts Receivable

—Computed by dividing Net Sales by Accounts Receivable; expressed in "times".

—Measures the sales tied up in accounts receivable. This ratio is the most meaningful when compared to previous years' ratios, due to individual dealer policies of granting their own credit.

Net Sales to Total Assets

—Computed by dividing Net Sales by Total Assets; expressed in "times".

—Measures the use of all Assets to produce Sales. A high ratio may indicate over-trading on assets. A low ratio may indicate excessive investment resulting in idle capacity.

Net Sales to Net Worth

—Computed by dividing Net Sales by Tangible Net Worth; expressed in "times".

—Measures the extent to which sales are supported by invested capital.

Net Sales to Working Capital

—Computed by dividing Net Sales by Working Capital (Current Assets minus Current Liabilities); expressed in "times".

—Measures the demand on working capital to support the sales volume. A high ratio may limit the firm's ability to meet day to day debts.

Sales Per Sq. Ft. — Selling Area

—Computed by dividing Net Sales by Square Feet of Sales Area; expressed in retail sales dollars.

—Measures sales productivity.

Sales Per Sq. Ft. — Total Area

—Computed by dividing Net Sales by Square Feet of Total Area including warehouse and outside storage area; expressed in retail sales dollars.

—Measures sales productivity and indicates the amount of sales generated by each square foot of the total facility.

Sales Per Person Employed

—Computed by dividing Net Sales by the Total Number of Employees; expressed in retail sales dollars.

—Measures the efficiency of personnel in producing sales and is the most useful when compared to past performance.

Sales Per Customer

—Computed by dividing Net Sales by the Total Number of Customer Transactions; expressed in retail sales dollars.

—Measures the average sale per transaction. This ratio gives an indication of the store personnel's ability to make add-on sales.

All Stores

Income Statement Data	All Hardware Stores	Low Profit Stores	High Profit Stores
Number of Stores	815	204	205
Net Sales Volume	$545,194	$408,916	$483,510
Current Year's Sales vs. Previous Year*	+2.57%	−6.87%	+7.06%
Gross Sales	102.33%	101.58%	102.28%
Less: Total Deductions	2.33	1.58	2.28
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	65.55	67.44	62.81
Margin Before Purchase Rebate or Patronage Dividend	34.45	32.56	37.19
Purchase Rebate or Patronage Dividend	1.15	1.23	1.09
Margin After Purchase Rebate or Patronage Dividend	35.60	33.79	38.28
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	5.58	5.81	5.49
Salaries/Wages — Other Employees	11.55	12.21	10.83
Federal and State Payroll Taxes	1.29	1.45	1.10
Group Insurance	.61	.78	.51
Benefit Plans	.40	.23	.43
Total Payroll and Other Employee Expense	19.43	20.48	18.36
Occupancy Expense			
Heat, Light, Power, Water	1.21	1.55	1.08
Building Repairs and Maintenance	.15	.13	.16
Rent or Ownership in Real Estate**	3.72	4.38	3.27
Total Occupancy Expense	5.08	6.06	4.51
Other Costs of Doing Business			
Office Supplies and Postage	.45	.51	.41
Advertising and Promotion	2.30	3.02	1.83
Donations	.06	.05	.10
Telephone and Telegraph	.33	.46	.27
Bad Debts	.18	.21	.22
Credit Card Expense (Bank Charges)	.11	.10	.09
Delivery Expenses (Other than Wages)	.51	.70	.37
Leasing Expenses (Non-Occupancy)	.06	.07	.03
Insurance (Other than Real Estate and Group)	.80	1.01	.72
Taxes (Other than Real Estate and Payroll)	.38	.25	.38
Equipment Repairs and Maintenance	.19	.20	.18
Interest (Other than Real Estate)	1.73	3.34	1.00
Depreciation (Other than Real Estate)	.84	1.07	.77
Store and Shop Supplies	.43	.60	.35
Legal and Accounting	.48	.48	.55
Computer Services and Expenses (Other than Wages)	.06	.07	.08
Dues and Subscriptions	.10	.13	.10
Travel, Buying, Entertainment	.22	.24	.21
Miscellaneous Services (Laundry, Disposal, Etc.)	.12	.21	.09
Unclassified Expenses	.36	.27	.41
Total Other Costs of Doing Business	9.71	12.99	8.16
Total Operating Expense	34.22	39.53	31.03
Operating Profit or Loss	1.38	(5.74)	7.25
Other Income	1.43	1.46	2.09
Net Operating Profit or Loss (Before Income Taxes)	2.81	(4.28)	9.34

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

All Stores

Balance Sheet Data	All Hardware Stores	Low Profit Stores	High Profit Stores
Total Dollar Assets	$274,645	$226,112	$278,863
	% of Total Assets		
Assets			
Cash On Hand and In Bank	5.68	1.73	8.16
Notes and Installment Contracts Receivable	3.99	3.84	5.12
Accounts Receivable	9.26	9.02	9.04
Merchandise Inventory (End of Year)	54.80	59.06	51.16
Other Current Assets	2.32	2.18	1.67
Total Current Assets	76.05	75.83	75.15
Stocks and Bonds	5.55	5.48	5.56
Real Estate (Not Used In Business)	.87	.62	.76
Other Investments	3.06	1.65	3.96
Total Investments	9.48	7.75	10.28
Land (Owned and Used In Business)	1.66	1.86	1.37
Buildings (Owned and Used in Business Less Depreciation)	4.93	6.06	5.40
Leasehold Improvements (Less Amortization Allowance)	.94	.85	.86
Furniture, Fixtures, Equipment (Owned and Used in Bus. Less Depre.)	4.43	5.96	3.51
Delivery Equipment (Owned and Used in Business Less Depreciation)	1.36	1.29	1.22
Other Fixed Assets	1.15	.40	2.21
Total Fixed Assets	14.47	16.42	14.57
Total Assets	100.00%	100.00%	100.00%
Liabilities and Net Worth			
Accounts Payable	10.30	11.96	7.18
Current Portion of Notes Payable	6.33	11.78	4.06
Accrued Payroll Taxes	.41	.45	.35
Accrued Other Taxes	1.08	1.05	.85
Other Accrued Expenses	2.35	1.36	2.07
Other Current Liabilities	.94	1.11	.77
Total Current Liabilities	21.41	27.71	15.28
Notes Due Partners/Officers	6.08	8.28	4.60
Mortgage Payable	4.59	6.76	3.92
Long Term Debt	13.69	26.63	8.61
Other Long Term Liabilities	1.49	1.78	.99
Total Long Term Liabilities	25.85	43.45	18.12
Total Liabilities	47.26	71.16	33.40
Net Worth	52.74	28.84	66.60
Total Liabilities and Net Worth	100.00%	100.00%	100.00%
Financial Performance			
Profit on Investment	10.57%	(26.88%)	24.33%
Active Owner's Return	31.56%	9.55%	38.62%
Current Asset Ratio	3.55x	2.74x	4.92x
Quick Asset Ratio	.99x	.61x	1.57x
Total Debt to Tangible Net Worth	89.64%	246.82%	50.16%
Stock Turn Times	2.43x	2.06x	2.23x
Sales to Inventory Ratio	3.70x	3.05x	3.55x
Average Inventory per Sq. Ft. Sales Area	$26.00	$24.72	$26.79
Net Sales to Accounts Receivable	21.43x	20.05x	19.19x
Accounts Receivable — Average Age in Days	17.03	18.20	19.02
Net Sales to Total Assets	1.99x	1.81x	1.73x
Net Sales to Net Worth	3.76x	6.27x	2.60x
Net Sales to Net Working Capital	3.63x	3.76x	2.90x
Other Operating Data			
Incoming Freight — % of Purchases	.95%	1.12%	1.03%
Credit Sales — % of Total Gross Sales	26.74%	26.86%	27.57%
Consumer Sales — % of Total Gross Sales	83.17%	84.52%	84.56%
Selling Area — Square Feet	6,274	6,529	5,442
Sales Per Square Foot — Selling Area	$86.90	$62.63	$88.85
Total Area — Square Feet	8,515	9,617	7,674
Sales Per Square Foot — Total Area	$61.15	$42.52	$63.01
Sales Per Person Employed	$60,825	$52,820	$61,993
Sales Per Customer	$8.83	$11.11	$8.13

Sales Volume Size

Income Statement Data	Sales Under $250,000	$250,000 To $499,999	$500,000 To $749,999	Sales $750,000 Or More
Number of Stores	207	307	135	166
Net Sales Volume	$173,581	$357,919	$606,444	$1,305,124
Current Year's Sales vs. Previous Year*	-.64%	-3.54%	+3.69%	+5.75%
Gross Sales	101.71%	101.91%	101.50%	102.95%
Less: Total Deductions	1.71	1.91	1.50	2.95
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	64.72	64.81	65.26	66.17
Margin Before Purchase Rebate or Patronage Dividend	35.28	35.19	34.74	33.83
Purchase Rebate or Patronage Dividend	1.27	1.20	1.26	1.07
Margin After Purchase Rebate or Patronage Dividend	36.55	36.39	36.00	34.90
Payroll and Other Employee Expense				
Salaries — Owners/Officers/Managers	7.15	6.35	5.17	5.08
Salaries/Wages — Other Employees	9.31	10.97	12.18	12.02
Federal and State Payroll Taxes	1.15	1.30	1.38	1.28
Group Insurance	.60	.74	.55	.56
Benefit Plans	.12	.20	.26	.60
Total Payroll and Other Employee Expense	18.33	19.56	19.54	19.54
Occupancy Expense				
Heat, Light, Power, Water	1.73	1.39	1.12	1.05
Building Repairs and Maintenance	.14	.12	.14	.17
Rent or Ownership in Real Estate**	4.55	3.83	3.83	3.47
Total Occupancy Expense	6.42	5.34	5.09	4.69
Other Costs of Doing Business				
Office Supplies and Postage	.54	.52	.45	.41
Advertising and Promotion	2.38	2.56	2.22	2.18
Donations	.07	.06	.08	.05
Telephone and Telegraph	.49	.37	.33	.27
Bad Debts	.16	.14	.20	.20
Credit Card Expense (Bank Charges)	.06	.07	.11	.14
Delivery Expenses (Other than Wages)	.87	.64	.54	.37
Leasing Expenses (Non-Occupancy)	.06	.11	.05	.05
Insurance (Other than Real Estate and Group)	1.06	.88	.85	.69
Equipment Repairs and Maintenance	.24	.21	.17	.19
Taxes (Other than Real Estate and Payroll)	.37	.37	.27	.43
Equipment Repairs and Maintenance	.24	.21	.17	.19
Interest (Other than Real Estate)	2.60	2.12	1.63	1.43
Depreciation (Other than Real Estate)	1.13	.98	.74	.76
Store and Shop Supplies	.61	.52	.39	.36
Legal and Accounting	.63	.55	.45	.43
Computer Services and Expenses (Other than Wages)	.06	.07	.07	.06
Dues and Subscriptions	.14	.12	.11	.08
Travel, Buying, Entertainment	.23	.22	.22	.21
Miscellaneous Services (Laundry, Disposal, etc.)	.10	.18	.10	.10
Unclassified Expenses	.37	.26	.44	.38
Total Other Costs of Doing Business	12.17	10.95	9.42	8.79
Total Operating Expense	36.92	35.85	34.05	33.02
Operating Profit or Loss	(.37)	.54	1.95	1.88
Other Income	1.71	1.64	1.36	1.29
Net Operating Profit or Loss (Before Income Taxes)	1.34	2.18	3.31	3.17

*As Reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Sales Volume Size

Balance Sheet Data	Sales Under $250,000	$250,000 To $499,999	$500,000 To $749,999	Sales $750,000 Or More
Total Dollar Assets	$119,157	$202,323	$308,612	$574,662
		% of Total Assets		
Assets				
Cash On Hand and In Bank	4.83	5.46	5.92	5.93
Notes and Installment Contracts Receivable	3.03	3.31	4.06	4.66
Accounts Receivable	5.83	7.97	11.24	10.13
Merchandise Inventory (End of Year)	56.43	57.97	53.77	52.72
Other Current Assets	1.68	1.93	2.44	2.69
Total Current Assets	71.80	76.64	77.43	76.13
Stocks and Bonds	5.06	5.76	6.00	5.35
Real Estate (Not Used in Business)	2.35	.73	.15	.88
Other Investments	3.25	2.61	2.37	3.61
Total Investments	10.66	9.10	8.52	9.84
Land (Owned and Used in Business)	2.10	2.08	1.75	1.24
Buildings (Owned and Used in Bus. Less Depre.)	7.35	4.61	4.41	4.75
Leasehold Improvements (Less Amortization Allowance)	.35	.60	.89	1.33
Furniture, Fixtures, Equipment (Owned and Used in Business Less Depreciation)	5.13	4.43	4.44	4.25
Delivery Equipment (Owned and Used in Bus. Less Depre.)	1.72	1.66	1.23	1.14
Other Fixed Assets	.89	.88	1.33	1.32
Total Fixed Assets	17.54	14.26	14.05	14.03
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities And Net Worth				
Accounts Payable	7.25	9.04	11.92	11.21
Current Portion of Notes Payable	6.82	7.67	7.55	4.79
Accrued Payroll Taxes	.44	.56	.54	.25
Accrued Other Taxes	.82	.99	.92	1.28
Other Accrued Expenses	.84	1.27	2.03	3.60
Other Current Liabilities	1.11	.81	1.00	.95
Total Current Liabilities	17.28	20.34	23.96	22.08
Notes Due Partners/Officers	7.93	7.83	5.52	4.70
Mortgage Payable	7.97	4.27	4.71	3.88
Long Term Debt	18.70	17.41	14.17	9.76
Other Long Term Liabilities	.64	1.53	2.13	1.40
Total Long Term Liabilities	35.24	31.04	26.53	19.74
Total Liabilities	52.52	51.38	50.49	41.82
Net Worth	47.48	48.62	49.51	58.18
Total Liabilities And Net Worth	100.00%	100.00%	100.00%	100.00%
Financial Performance				
Profit on Investment	4.12%	7.96%	13.16%	12.40%
Active Owner's Return	26.05%	31.05%	33.67%	32.23%
Current Asset Ratio	4.16x	3.77x	3.23x	3.45x
Quick Asset Ratio	.89x	.92x	.99x	1.06x
Total Debt to Tangible Net Worth	110.56%	105.70%	102.02%	71.89%
Stock Turn Times	1.72x	2.02x	2.45x	2.91x
Sales to Inventory Ratio	2.66x	3.11x	3.75x	4.40x
Average Inventory per Sq. Ft. Sales Area	$19.76	$25.76	$27.38	$27.71
Net Sales to Accounts Receivable	24.99x	22.19x	17.49x	22.43x
Accounts Receivable — Average Age in Days	14.61	16.45	20.87	16.27
Net Sales to Total Assets	1.46x	1.77x	1.97x	2.27x
Net Sales to Net Worth	3.07x	3.64x	3.97x	3.90x
Net Sales to Net Working Capital	2.67x	3.14x	3.68x	4.20x
Other Operating Data				
Incoming Freight — % of Purchases	1.28%	1.22%	.91%	.79%
Credit Sales — % of Total Gross Sales	26.02%	29.03%	30.22%	24.24%
Consumer Sales — % of Total Gross Sales	86.13%	83.05%	79.31%	83.27%
Selling Area — Square Feet	3,535	4,820	7,236	11,156
Sales Per Square Foot — Selling Area	$49.10	$74.26	$83.81	$116.99
Total Area — Square Feet	5,223	7,226	11,277	14,815
Sales Per Square Foot — Total Area	$33.23	$49.53	$53.78	$88.09
Sales Per Person Employed	$43,954	$53,887	$59,400	$69,328
Sales Per Customer	$7.84	$8.64	$6.21	$10.43

Sales Floor Size

Income Statement Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	5,000 Sq. Ft. To 9,999 Sq. Ft.	Sales Area 10,000 Sq. Ft. or More
Number of Stores	110	235	230	98
Net Sales Volume	$276,246	$365,162	$577,156	$1,317,559
Current Year's Sales vs. Previous Year*	+9.19%	+5.24%	-3.23%	+5.41%
Gross Sales	101.61%	101.84%	101.98%	103.40%
Less: Total Deductions	1.61	1.84	1.98	3.40
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	64.80	65.59	64.58	66.21
Margin Before Purchase Rebate or Patronage Dividend	35.20	34.41	35.42	33.79
Purchase Rebate or Patronage Dividend	.89	1.09	1.21	1.17
Margin After Purchase Rebate or Patronage Dividend	36.09	35.50	36.63	34.96
Payroll and Other Employee Expense				
Salaries — Owners/Officers/Managers	7.20	5.84	5.96	5.09
Salaries/Wages — Other Employees	11.43	10.95	12.16	11.51
Federal and State Payroll Taxes	1.45	1.23	1.39	1.22
Group Insurance	.56	.65	.67	.54
Benefit Plans	.21	.39	.38	.53
Total Payroll and Other Employee Expense	20.85	19.06	20.56	18.89
Occupancy Expense				
Heat, Light, Power, Water	1.16	1.19	1.17	1.19
Building Repairs and Maintenance	.13	.12	.18	.18
Rent or Ownership in Real Estate**	3.31	3.42	3.82	3.71
Total Occupancy Expense	4.60	4.73	5.17	5.08
Other Costs of Doing Business				
Office Supplies and Postage	.50	.52	.49	.35
Advertising and Promotion	1.80	2.14	2.33	2.40
Donations	.06	.07	.06	.06
Telephone and Telegraph	.38	.32	.33	.27
Bad Debts	.15	.14	.19	.19
Credit Card Expense (Bank Charges)	.05	.08	.10	.17
Delivery Expenses (Other than Wages)	.74	.66	.47	.28
Leasing Expenses (Non-Occupancy)	.04	.07	.09	.04
Insurance (Other than Real Estate and Group)	1.03	.86	.81	.65
Taxes (Other than Real Estate and Payroll)	.31	.33	.48	.40
Equipment Repairs and Maintenance	.20	.22	.18	.17
Interest (Other than Real Estate)	1.19	1.70	1.37	1.91
Depreciation (Other than Real Estate)	.84	.72	.79	.80
Store and Shop Supplies	.51	.40	.43	.38
Legal and Accounting	.51	.59	.42	.43
Computer Services and Expenses (Other than Wages)	.06	.07	.08	.05
Dues and Subscriptions	.12	.11	.11	.08
Travel, Buying, Entertainment	.18	.21	.23	.22
Miscellaneous Services (Laundry, Disposal, etc.)	.15	.15	.08	.11
Unclassified Expenses	.39	.34	.34	.47
Total Other Costs of Doing Business	9.21	9.70	9.38	9.43
Total Operating Expense	34.66	33.49	35.11	33.40
Operating Profit or Loss	1.43	2.01	1.52	1.56
Other Income	1.55	1.44	.50	1.22
Net Operating Profit or Loss (Before Income Taxes)	2.98	3.45	3.02	2.78

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Sales Floor Size

Balance Sheet Data	Sales Area Under 3,000 Sq. Ft.	3,000 Sq. Ft. To 4,999 Sq. Ft.	5,000 Sq. Ft. To 9,999 Sq. Ft.	Sales Area 10,000 Sq. Ft. Or More
Total Dollar Assets	$147,247	$194,439	$303,491	$586,032
Assets		% of Total Assets		
Cash On Hand and In Bank	8.96	6.01	5.91	5.05
Notes and Installment Contracts Receivable	1.74	3.29	3.71	4.76
Accounts Receivable	11.27	9.19	9.35	9.30
Merchandise Inventory (End of Year)	52.63	53.76	54.39	55.40
Other Current Assets	1.97	2.86	1.82	3.03
Total Current Assets	76.57	75.11	75.18	77.54
Stocks and Bonds	5.32	5.19	6.78	4.40
Real Estate (Not Used in Business)	.86	1.10	.75	1.29
Other Investments	2.21	3.83	2.62	3.82
Total Investments	8.39	10.12	10.15	9.51
Land (Owned and Used in Business)	3.11	1.81	1.79	.99
Buildings (Owned and Used in Bus. Less Depre.)	4.78	5.15	5.47	3.83
Leasehold Improvements (Less Amortization Allowance)	.51	.63	1.05	1.23
Furniture, Fixtures, Equipment (Owned and Used in Business Less Depreciation)	3.61	3.67	3.87	5.60
Delivery Equipment (Owned and Used in Business Less Depreciation)	1.64	1.58	1.29	.90
Other Fixed Assets	1.39	1.93	1.20	.40
Total Fixed Assets	15.04	14.77	14.67	12.95
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities And Net Worth				
Accounts Payable	8.21	9.20	10.10	11.35
Current Portion of Notes Payable	4.95	6.53	5.84	6.39
Accrued Payroll Taxes	.63	.58	.40	.18
Accrued Other Taxes	.94	1.00	.87	1.41
Other Accrued Expenses	1.44	1.64	1.75	4.12
Other Current Liabilities	.78	1.21	.90	1.12
Total Current Liabilities	16.95	20.16	19.86	24.57
Notes Due Partners/Officers	4.41	6.00	6.17	4.43
Mortgage Payable	2.77	5.59	4.66	3.44
Long Term Debt	12.97	12.72	11.62	12.79
Other Long Term Liabilities	.27	1.79	1.60	1.87
Total Long Term Liabilities	20.42	26.10	24.05	22.53
Total Liabilities	37.37	46.26	43.91	47.10
Net Worth	62.63	53.74	56.09	52.90
Total Liabilities And Net Worth	100.00%	100.00%	100.00%	100.00%
Financial Performance				
Profit on Investment	8.95%	12.03%	10.24%	11.81%
Active Owner's Return	30.53%	32.43%	30.43%	33.45%
Current Asset Ratio	4.52x	3.73x	3.79x	3.16x
Quick Asset Ratio	1.41x	1.06x	1.05x	.90x
Total Debt to Tangible Net Worth	59.68%	86.06%	78.24%	89.02%
Stock Turn Times	2.34x	2.34x	2.33x	2.73x
Sales to Inventory Ratio	3.62x	3.57x	3.60x	4.12x
Average Inventory per Sq. Ft. Sales Area	$37.05	$30.19	$25.36	$22.48
Net Sales to Accounts Receivable	16.65x	20.44x	20.33x	24.18x
Accounts Receivable — Average Age in Days	21.92	17.86	17.95	15.10
Net Sales to Total Assets	1.88x	1.88x	1.90x	2.25x
Net Sales to Net Worth	3.00x	3.49x	3.39x	4.25x
Net Sales to Net Working Capital	3.15x	3.42x	3.44x	4.24x
Other Operating Data				
Incoming Freight — % of Purchases	1.11%	1.19%	1.02%	.69%
Credit Sales — % of Total Gross Sales	37.57%	33.89%	27.75%	17.76%
Consumer Sales — % of Total Gross Sales	79.81%	82.22%	83.00%	89.26%
Selling Area — Square Feet	2,125	3,818	6,654	15,928
Sales Per Square Foot — Selling Area	$130.00	$95.64	$86.74	$82.72
Total Area — Square Feet	3,867	6,342	9,311	21,591
Sales Per Square Foot — Total Area	$71.44	$57.58	$61.99	$61.02
Sales Per Person Employed	$58,190	$57,628	$56,605	$68,793
Sales Per Customer	$10.38	$6.26	$9.49	$10.00

Type of Ownership

Income Statement Data	Sole-Proprietorship	Partnership	Corporation
Number of Stores	153	49	609
Net Sales Volume	$246,373	$375,447	$633,527
Current Year's Sales vs. Previous Year*	+3.71%	+.72%	+2.53%
Gross Sales	101.63%	103.10%	102.35%
Less: Total Deductions	1.63	3.10	2.35
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	66.51	66.94	65.39
Margin Before Purchase Rebate or Patronage Dividend	33.49	33.06	34.61
Purchase Rebate or Patronage Dividend	1.06	1.30	1.15
Margin After Purchase Rebate or Patronage Dividend	34.55	34.36	35.76
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	5.37	6.48	5.54
Salaries/Wages — Other Employees	9.95	9.80	11.84
Federal and State Payroll Taxes	.98	.94	1.34
Group Insurance	.51	.55	.62
Benefit Plans	.19	.08	.44
Total Payroll and Other Employee Expense	17.00	17.85	19.78
Occupancy Expense			
Heat, Light, Power, Water	1.50	1.20	1.17
Building Repairs and Maintenance	.12	.07	.16
Rent or Ownership in Real Estate**	3.83	3.18	3.73
Total Occupancy Expense	5.45	4.45	5.06
Other Costs of Doing Business			
Advertising and Promotion	2.32	1.99	2.30
Insurance (Other than Real Estate and Group)	.84	.77	.80
Taxes (Other than Real Estate and Payroll)	.27	.21	.41
Interest (Other than Real Estate)	2.22	1.73	1.69
Depreciation (Other than Real Estate)	.99	.76	.82
All Other Expenses	3.81	3.84	3.63
Total Other Costs of Doing Business	10.45	9.30	9.65
Total Operating Expense	32.90	31.60	34.49
Operating Profit or Loss	1.65	2.76	1.27
Other Income	1.73	1.86	1.38
Net Operating Profit or Loss (Before Income Taxes)	3.38	4.62	2.65
Financial Performance			
Profit on Investment	10.14%	15.35%	10.29%
Active Owner's Return	26.26%	36.91%	31.80%
Current Asset Ratio	4.45x	4.02x	3.45x
Quick Asset Ratio	1.01x	1.30x	.98x
Total Debt to Tangible Net Worth	88.57%	73.22%	90.56%
Stock Turn Times	2.07x	2.49x	2.47x
Sales to Inventory Ratio	3.11x	3.72x	3.78x
Average Inventory per Sq. Ft. Sales Area	$19.21	$24.25	$27.27
Net Sales to Accounts Receivable	26.26x	17.81x	21.20x
Accounts Receivable — Average Age in Days	13.90	20.49	17.22
Net Sales to Total Assets	1.59x	1.92x	2.04x
Net Sales to Net Worth	3.00x	3.33x	3.88x
Net Sales to Net Working Capital	3.02x	3.32x	3.73x
Other Operating Data			
Incoming Freight — % of Purchases	1.44%	1.11%	.90%
Credit Sales — % of Total Gross Sales	24.39%	34.37%	26.51%
Consumer Sales — % of Total Gross Sales	86.52%	82.31%	82.25%
Selling Area — Square Feet	4,220	4,305	6,966
Sales Per Square Foot — Selling Area	$58.38	$87.21	$90.95
Total Area — Square Feet	5,782	6,549	9,928
Sales Per Square Foot — Total Area	$42.61	$57.33	$63.81
Sales Per Person Employed	$52,299	$60,905	$61,776
Sales Per Customer	$7.33	$7.93	$9.04

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Trade Area Size

Income Statement Data	S.M.S.A. Central City	S.M.S.A. Surburban	Cities 10,000 To 50,000	Rural Areas Under 10,000
Number of Stores	108	47	183	445
Net Sales Volume	$716,127	$676,434	$665,754	$450,958
Current Year's Sales vs. Previous Year*	+4.20%	+2.40%	+5.22%	+.53%
Gross Sales	102.22%	103.84%	102.61%	102.01%
Less: Total Deductions	2.22	3.84	2.61	2.01
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	62.91	63.87	65.58	66.88
Margin Before Purchase Rebate or Patronage Dividend	37.09	36.13	34.42	33.12
Purchase Rebate or Patronage Dividend	1.04	1.45	1.13	1.14
Margin After Purchase Rebate or Patronage Dividend	38.13	37.58	35.55	34.26
Payroll and Other Employee Expenses				
Salaries — Owners/Officers/Managers	6.08	6.48	4.98	5.61
Salaries/Wages — Other Employees	12.41	12.88	12.26	10.60
Federal and State Payroll Taxes	1.35	1.45	1.31	1.23
Group Insurance	.69	.71	.52	.62
Benefit Plans	.63	.32	.41	.32
Total Payroll and Other Employee Expenses	21.16	21.84	19.48	18.38
Occupancy Expenses				
Heat, Light, Power, Water	1.13	1.24	1.16	1.25
Building Repairs and Maintenance	.20	.13	.11	.16
Rent or Ownership in Real Estate**	4.12	4.15	3.81	3.41
Total Occupancy Expenses	5.45	5.52	5.08	4.82
Other Costs of Doing Business				
Advertising and Promotion	2.17	2.46	2.38	2.27
Insurance — Other than Real Estate or Group	.74	.68	.81	.82
Taxes — Other than Real Estate or Payroll	.51	.31	.37	.36
Interest — Other than Real Estate	1.18	1.78	1.67	1.92
Depreciation — Other than Real Estate	.88	.72	.74	.88
All Other Expenses	3.69	3.35	3.66	3.60
Total Other Costs of Doing Business	9.13	9.30	9.63	9.85
Total Operating Expenses	35.74	36.66	34.19	33.05
Operating Profit or Loss	2.39	.92	1.36	1.21
Other Income	1.20	1.45	1.27	1.53
Net Operating Profit or Loss (Before Income Taxes)	3.59	2.37	2.63	2.74
Financial Performance				
Profit on Investment	14.45%	8.76%	10.78%	9.65%
Active Owner's Return	38.88%	32.73%	31.17%	29.40%
Current Asset Ratio	3.16x	3.90x	3.32x	3.77x
Quick Asset Ratio	.95x	1.18x	.98x	.99x
Total Debt to Tangible Net Worth	75.56%	85.48%	92.72%	92.75%
Stock Turn Times	2.85x	2.43x	2.61x	2.22x
Sales to Inventory Ratio	4.53x	3.81x	3.98x	3.32x
Average Inventory per Sq. Ft. Sales Area	$28.34	$24.96	$26.47	$25.25
Net Sales to Accounts Receivable	28.25x	24.67x	19.57x	20.49x
Accounts Receivable — Average Age in Days	12.92	14.80	18.65	17.81
Net Sales to Total Assets	2.29x	2.00x	2.13x	1.83x
Net Sales to Net Worth	4.02x	3.70x	4.10x	3.52x
Net Sales to Net Working Capital	4.49x	3.56x	3.92x	3.27x
Other Operating Data				
Incoming Freight — % of Purchases	.52%	.87%	.88%	1.17%
Credit Sales — % of Total Gross Sales	24.32%	19.84%	27.97%	28.09%
Consumer Sales — % of Total Gross Sales	79.48%	86.57%	81.75%	84.31%
Selling Area — Square Feet	6,070	7,647	7,635	5,623
Sales Per Square Foot — Selling Area	$117.98	$88.46	$87.20	$80.20
Total Area — Square Feet	8,538	9,179	10,656	8,272
Sales Per Square Foot — Total Area	$83.88	$73.69	$62.48	$54.52
Sales Per Person Employed	$57,891	$64,851	$60,723	$61,634
Sales Per Customer	$9.49	$9.17	$7.91	$9.06

*As reported to us by Management Report contributors.

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Store Location: Part I

Income Statement Data	Downtown	Suburban	Rural
Number of Stores	391	203	51
Net Sales Volume	$478,270	$750,997	$454,853
Current Year's Sales vs. Previous Year*	+1.69%	+3.27%	+4.19%
Gross Sales	102.00%	102.84%	101.01%
Less: Total Deductions	2.00	2.84	1.01
Net Sales	100.00%	100.00%	100.00%
Cost of Goods Sold	65.53	65.03	67.21
Margin Before Purchase Rebate or Patronage Dividend	34.47	34.97	32.79
Purchase Rebate or Patronage Dividend	.97	1.26	.74
Margin After Purchase Rebate or Patronage Dividend	35.44	36.23	33.53
Payroll and Other Employee Expense			
Salaries — Owners/Officers/Managers	5.48	5.86	6.56
Salaries/Wages — Other Employees	11.73	11.54	9.36
Federal and State Payroll Taxes	1.29	1.29	1.28
Group Insurance	.65	.53	.63
Benefit Plans	.46	.33	.52
Total Payroll and Other Employee Expense	19.61	19.55	18.35
Occupancy Expense			
Heat, Light, Power, Water	1.13	1.23	1.20
Building Repairs and Maintenance	.16	.17	.19
Rent or Ownership in Real Estate**	3.39	3.93	3.89
Total Occupancy Expense	4.68	5.33	5.28
Other Costs of Doing Business			
Advertising and Promotion	2.23	2.40	2.01
Insurance (Other than Real Estate and Group)	.92	.62	.67
Taxes (Other than Real Estate and Payroll)	.39	.45	.37
Interest (Other than Real Estate)	1.48	1.72	2.03
Depreciation (Other than Real Estate)	.74	.83	.82
All Other Expenses	3.94	3.34	3.21
Total Other Costs of Doing Business	9.70	9.36	9.11
Total Operating Expense	33.99	34.24	32.74
Operating Profit or Loss	1.45	1.99	.79
Other Income	1.54	1.22	1.15
Net Operating Profit or Loss (Before Income Taxes)	2.99	3.21	1.94
Financial Performance			
Profit on Investment	9.96%	13.26%	7.56%
Active Owner's Return	28.20%	37.48%	33.09%
Current Asset Ratio	3.70x	3.61x	2.87x
Quick Asset Ratio	1.08x	.99x	.65x
Total Debt to Tangible Net Worth	76.93%	85.45%	112.97%
Stock Turn Times	2.39x	2.60x	2.31x
Sales to Inventory Ratio	3.65x	4.99x	3.44x
Average Inventory per Sq. Ft. Sales Area	$25.67	$25.97	$25.33
Net Sales to Accounts Receivable	17.07x	28.05x	29.67x
Accounts Receivable — Average Age in Days	21.38	13.01	12.30
Net Sales to Total Assets	1.88x	2.23x	1.83x
Net Sales to Net Worth	3.33x	4.13x	3.89x
Net Sales to Net Working Capital	3.45x	3.92x	4.01x
Other Operating Data			
Incoming Freight — % of Purchases	1.11%	.83%	.48%
Credit Sales — % Total Gross Sales	35.05%	17.32%	20.28%
Consumer Sales — % of Total Gross Sales	83.01%	82.99%	84.63%
Selling Area — Square Feet	5,803	7,580	5,808
Sales Per Square Foot — Selling Area	$82.42	$99.08	$78.31
Total Area — Square Feet	8,820	9,729	7,996
Sales Per Square Foot — Total Area	$54.23	$77.19	$56.89
Sales Per Person Employed	$59,221	$61,825	$68,839
Sales Per Customer	$9.23	$8.46	$10.19

*As reported to us by Management Report contributors.

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Store Location: Part II

Income Statement Data	Shopping Center: Neighborhood	Shopping Center: Community or Regional	Free-Standing: No Stores Adjacent	Free-Standing: Stores Nearby
Number of Stores	104	70	100	366
Net Sales Volume	$585,114	$597,675	$656,654	$520,638
Current Year's Sales vs. Previous Year*	+2.95%	+4.75%	+5.12%	+.69%
Gross Sales	102.48%	103.43%	101.82%	102.31%
Less: Total Deductions	2.48	3.43	1.82	2.31
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	64.99	64.48	67.70	65.06
Margin Before Purchase Rebate or Patronage Dividend	35.01	35.52	32.30	34.94
Purchase Rebate or Patronage Dividend	1.17	1.29	1.14	1.07
Margin After Purchase Rebate or Patronage Dividend	36.18	36.81	33.44	36.01
Payroll and Other Employee Expense				
Salaries — Owners/Officers/Managers	5.40	5.50	4.65	6.02
Salaries/Wages — Other Employees	11.43	11.24	11.43	11.68
Federal and State Payroll Taxes	1.40	1.21	1.18	1.33
Group Insurance	.69	.47	.54	.62
Benefit Plans	.52	.39	.49	.37
Total Payroll and Other Employee Expense	19.44	18.81	18.29	20.02
Occupancy Expense				
Heat, Light, Power, Water	1.38	1.23	1.14	1.14
Building Repairs and Maintenance	.23	.14	.12	.17
Rent or Ownership in Real Estate**	4.75	4.24	3.20	3.41
Total Occupancy Expense	6.36	5.61	4.46	4.72
Other Costs of Doing Business				
Advertising and Promotion	2.50	2.41	2.32	2.18
Insurance (Other than Real Estate and Group)	.65	.74	.74	.84
Taxes (Other than Real Estate and Payroll)	.27	.41	.37	.45
Interest (Other than Real Estate)	1.60	2.03	1.61	1.53
Depreciation (Other than Real Estate)	.90	.82	.74	.78
All Other Expenses	3.76	3.49	3.40	3.63
Total Other Costs of Doing Business	9.68	9.90	9.18	9.41
Total Operating Expense	35.48	34.32	31.93	34.15
Operating Profit or Loss	.70	2.49	1.51	1.86
Other Income	.86	1.34	1.51	1.52
Net Operating Profit or Loss (Before Income Taxes)	1.56	3.83	3.02	3.38
Financial Performance				
Profit on Investment	7.26%	14.83%	11.56%	11.22%
Active Owner's Return	32.42%	36.16%	29.36%	31.20%
Current Asset Ratio	2.94x	3.57x	3.33x	3.82x
Quick Asset Ratio	.71x	.96x	1.00x	1.12x
Total Debt to Tangible Net Worth	109.72%	87.61%	93.48%	73.50%
Stock Turn Times	2.53x	2.33x	2.60x	2.41x
Sales to Inventory Ratio	3.89x	3.61x	3.84x	3.71x
Average Inventory per Sq. Ft. Sales Area	$23.59	$26.22	$28.74	$25.84
Net Sales to Accounts Receivable	33.91x	21.88x	20.82x	19.19x
Accounts Receivable — Average Age in Days	10.76	16.68	17.53	19.02
Net Sales to Total Assets	2.22x	2.07x	1.98x	1.91x
Net Sales to Net Worth	4.66x	3.88x	3.83x	3.32x
Net Sales to Net Working Capital	4.42x	3.56x	3.79x	3.45x
Other Operating Data				
Incoming Freight — % of Purchases	1.00%	.84%	.90%	.98%
Credit Sales — % of Total Gross Sales	17.71%	18.18%	31.64%	27.47%
Consumer Sales — % of Total Gross Sales	86.65%	86.16%	77.12%	83.08%
Selling Area — Square Feet	6,486	8,771	6,382	5,777
Sales Per Square Foot — Selling Area	$90.21	$68.14	$102.89	$90.12
Total Area — Square Feet	8,574	11,498	10,107	8,317
Sales Per Square Foot — Total Area	$68.24	$51.98	$64.97	$62.60
Sales Per Person Employed	$56,501	$61,788	$68,028	$59,429
Sales Per Customer	$7.91	$7.32	$11.22	$8.99

*As reported to us by Management Report contributors.
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Geographical Region

1. **New England**
   Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

2. **Middle Atlantic**
   New Jersey, New York, Pennsylvania

3. **South Atlantic**
   Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

4. **East North Central**
   Illinois, Indiana, Michigan, Ohio, Wisconsin

5. **East South Central**
   Alabama, Kentucky, Mississippi, Tennessee

6. **West North Central**
   Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

7. **West South Central**
   Arkansas, Louisiana, Oklahoma, Texas

8. **Mountain**
   Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah, Wyoming

9. **Pacific**
   California, Oregon, Washington

*As reported to us by Management Report contributors

**Ownership in Real Estate includes Taxes, Insurance and Depreciation on Land and Buildings and Interest on Mortgages.

Income Statement Data	1 New England
Number of Stores	94
Net Sales Volume	$514,950
Current Year's Sales vs. Previous Year*	+4.95%
Gross Sales	101.84%
Less: Total Deductions	1.84
Net Sales	100.00%
Cost of Goods Sold	65.25
Margin Before Purchase Rebate or Patronage Dividend	34.75
Purchase Rebate or Patronage Dividend	.89
Margin After Purchase Rebate or Patronage Dividend	35.64
Payroll and Other Employee Expense	
Salaries — Owners/Officers/Managers	4.93
Salaries/Wages — Other Employees	12.26
Federal and State Payroll Taxes	1.48
Group Insurance	.80
Benefit Plans	.26
Total Payroll and Other Employee Expense	19.73
Occupancy Expense	
Heat, Light, Power, Water	1.12
Building Repairs and Maintenance	.12
Rent or Ownership in Real Estate**	3.90
Total Occupancy Expense	5.14
Total Costs of Doing Business	
Advertising and Promotion	1.73
Insurance (Other than Real Estate and Group)	.87
Taxes (Other than Real Estate and Payroll)	.18
Interest (Other than Real Estate)	1.41
Depreciation (Other than Real Estate)	.99
All Other Expenses	4.14
Total Other Costs of Doing Business	9.32
Total Operating Expense	34.19
Operating Profit or Loss	1.45
Other Income	1.88
Net Operating Profit or Loss (Before Income Taxes)	3.33
Financial Performance	
Profit on Investment	13.66%
Active Owner's Return	33.84%
Current Asset Ratio	3.22x
Quick Asset Ratio	1.05x
Total Debt to Tangible Net Worth	104.21%
Stock Turn Times	2.64x
Sales to Inventory Ratio	4.05x
Average Inventory Per Sq. Ft. Sales Area	$33.10
Net Sales to Accounts Receivable	19.28x
Accounts Receivable — Average Age in Days	18.93
Net Sales to Total Assets	2.00x
Net Sales to Net Worth	4.09x
Net Sales to Net Working Capital	3.81x
Other Operating Data	
Incoming Freight — % of Purchases	.73%
Credit Sales — % of Total Gross Sales	38.88%
Consumer Sales — % of Total Gross Sales	80.65%
Selling Area — Square Feet	4,096
Sales Per Square Foot — Selling Area	$125.72
Total Area — Square Feet	7,124
Sales Per Square Foot — Total Area	$72.28
Sales Per Person Employed	$62,749
Sales Per Customer	$6.35

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Geographical Region

2 Middle Atlantic	3 South Atlantic	4 East North Central	5 East South Central	6 West North Central	7 West South Central	8 Mountain	9 Pacific
76	72	311	26	154	23	18	41
$521,203	$541,996	$557,877	$495,488	$507,141	$867,052	$733,383	$479,689
+11.51%	-.34%	+.63%	+.19%	+4.09%	+.71%	+4.84%	-.40%
100.68%	100.95%	103.03%	103.17%	102.97%	101.54%	101.50%	101.66%
.68	.95	3.03	3.17	2.97	1.54	1.50	1.66
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
64.25	64.53	66.13	66.89	66.59	63.27	65.63	63.02
35.75	35.47	33.87	33.11	33.41	36.73	34.37	36.98
.79	.57	1.79	.91	.80	.55	.39	.75
36.54	36.04	35.66	34.02	34.21	37.28	34.76	37.73
5.84	6.16	5.53	4.77	5.57	4.79	5.71	7.18
11.29	12.07	11.59	11.39	10.52	13.02	11.96	11.32
1.46	1.31	1.31	1.07	1.18	.85	1.23	1.41
.64	.54	.72	.49	.38	.46	.39	.49
.88	.29	.40	.22	.27	.47	.79	.32
20.11	20.37	19.55	17.94	17.92	19.59	20.08	20.72
1.28	1.04	1.37	.90	1.20	.84	.78	1.01
.26	.17	.12	.20	.15	.06	.15	.22
3.31	3.37	4.01	2.44	3.64	3.09	3.56	4.12
4.85	4.58	5.50	3.54	4.99	3.99	4.49	5.35
2.08	1.69	2.81	1.47	2.41	1.17	2.20	2.09
.95	.73	.76	.71	.84	.91	.40	.84
.41	.50	.42	.62	.26	.66	.32	.45
1.00	1.29	1.99	1.55	2.40	.86	1.10	1.39
.63	.73	.90	.69	.85	.75	.59	.89
3.36	3.25	3.73	4.05	3.25	3.78	4.18	4.40
8.43	8.19	10.61	9.09	10.01	8.13	3.79	10.06
33.39	33.14	35.66	30.57	32.92	31.71	33.36	36.13
3.15	2.90	.00	3.45	1.29	5.57	1.40	1.60
1.14	1.13	1.50	1.84	1.08	2.22	1.72	.98
4.29	4.03	1.50	5.29	2.37	7.79	3.12	2.58
13.97%	15.06%	6.20%	16.21%	9.02%	19.91%	11.46%	8.84%
32.99%	38.11%	29.16%	30.84%	30.23%	32.15%	32.42%	33.44%
3.29x	3.18x	3.43x	3.13x	3.45x	9.15x	5.40x	4.88x
.95x	.97x	.89x	1.29x	.79x	3.72x	1.54x	1.19x
67.75%	81.43%	110.87%	76.73%	81.87%	36.74%	78.34%	82.71%
2.55x	2.65x	2.32x	2.64x	2.34x	2.71x	2.78x	2.17x
3.96x	4.11x	3.50x	3.95x	3.51x	4.29x	4.24x	3.45x
$29.98	$27.07	$25.17	$25.82	$22.57	$24.39	$30.58	$29.80
17.48x	18.94x	25.89x	15.78x	22.06x	15.13x	20.85x	22.19x
20.88	19.27	14.10	23.13	16.55	24.12	17.51	16.45
1.94x	2.06x	1.97x	1.74x	2.09x	1.87x	2.06x	1.87x
3.26x	3.74x	4.16x	3.07x	3.81x	2.55x	3.67x	3.42x
3.87x	4.06x	3.62x	3.33x	3.76x	2.76x	3.58x	3.16x
.82%	.37%	1.12%	.72%	1.14%	.45%	1.68%	.88%
29.38%	33.72%	24.78%	49.47%	13.61%	30.29%	29.41%	30.20%
80.70%	75.64%	83.85%	79.83%	87.44%	84.43%	80.06%	89.06%
4,555	5,945	6,714	5,795	7,772	8,597	5,908	5,362
$114.42	$91.17	$83.09	$85.50	$65.25	$100.86	$124.13	$89.46
7,218	8,926	9,701	8,545	9,384	12,431	8,532	6,771
$72.21	$60.72	$57.51	$57.99	$54.04	$69.75	$85.96	$70.84
$57,165	$57,432	$58,752	$66,242	$65,029	$63,945	$73,338	$60,213
$8.47	$9.29	$7.52	$22.13	$9.00	$11.92	$10.86	$9.37

Number of Stores

Income Statement Data	Single Store Business	Multiple Store Business
Number of Stores	724	91
Net Sales Volume	$555,973	$459,434
Current Year's Sales vs. Previous Year*	+2.73%	+1.13%
Gross Sales	102.42%	101.44%
Less: Total Deductions	2.42	1.44
Net Sales	100.00%	100.00%
Cost of Goods Sold	65.63	64.75
Margin Before Purchase Rebate or Patronage Dividend	34.37	35.25
Purchase Rebate or Patronage Dividend	1.17	.99
Margin After Purchase Rebate or Patronage Dividend	35.54	36.24
Payroll and Other Employee Expense		
Salaries — Owners/Officers/Managers	5.71	4.26
Salaries/Wages — Other Employees	11.38	13.27
Federal and State Payroll Taxes	1.29	1.29
Group Insurance	.62	.51
Benefit Plans	.41	.34
Total Payroll and Other Employee Expense	19.41	19.67
Occupancy Expense		
Heat, Light, Power, Water	1.21	1.18
Building Repairs and Maintenance	.15	.17
Rent or Ownership in Real Estate**	3.67	4.14
Total Occupancy Expense	5.03	5.49
Other Costs of Doing Business		
Advertising and Promotion	2.31	2.14
Insurance (Other than Real Estate and Group)	.80	.77
Taxes (Other than Real Estate and Payroll)	.39	.38
Interest (Other than Real Estate)	1.72	1.80
Depreciation (Other than Real Estate)	.85	.76
All Other Expenses	3.66	3.70
Total Other Costs of Doing Business	9.73	9.55
Total Operating Expense	34.17	34.71
Operating Profit or Loss	1.37	1.53
Other Income	1.45	1.16
Net Operating Profit or Loss (Before Income Taxes)	2.82	2.69
Financial Performance		
Profit on Investment	10.48%	11.65%
Active Owner's Return	31.70%	30.07%
Current Asset Ratio	3.59x	3.19x
Quick Asset Ratio	1.00x	.93x
Total Debt to Tangible Net Worth	87.99%	108.15%
Stock Turn Times	2.41x	2.57x
Sales to Inventory Ratio	3.68x	3.97x
Average Inventory per Sq. Ft. Sales Area	$25.01	$41.60
Net Sales to Accounts Receivable	21.83x	18.24x
Accounts Receivable — Average Age in Days	16.72	20.01
Net Sales to Total Assets	1.98x	2.08x
Net Sales to Net Worth	3.71x	4.33x
Net Sales to Net Working Capital	3.60x	3.97x
Other Operating Data		
Incoming Freight — % of Purchases	1.00%	.55%
Credit Sales — % of Total Gross Sales	26.98%	23.80%
Consumer Sales — % of Total Gross Sales	83.42%	81.49%
Selling Area — Square Feet	6,144	7,224
Sales Per Square Foot — Selling Area	$90.49	$63.60
Total Area — Square Feet	8,571	11,246
Sales Per Square Foot — Total Area	$64.87	$40.85
Sales Per Person Employed	$60,709	$61,909
Sales Per Customer	$9.07	$7.03

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Strategic Profit Model

The Strategic Profit Model can be an excellent management tool for hardlines retailers. The Model combines the principal elements of a firm's operating statment and balance sheet into a single profit planning equation, evaluating operating performance on the most important criteria — Return on Net Worth.

The Strategic Profit Model clearly identifies through the use of financial ratio analysis the three major operational areas that determine the rate of return on net worth; profit margin, asset turnover and leverage.

Several elements that can be controlled by management to improve the level of operational performance are:

Profit Margin

Sales — Increase sales through better displays and advertising, more promotions, addition of new lines, etc.

Cost of Goods Sold — Improve Gross Margin through variable pricing, efficient buying, etc.

Expenses — Trimming expenses is difficult in view of today's high inflation, labor costs, occupancy expense, etc., however, carefully review each item of expense for areas of cost savings.

Other Income — Take advantage of cash discounts, earnings from revolving or installment credit programs and other investments such as stock ownership.

Asset Turnover

Inventory — Decrease inventory levels through a careful review of the level of all items, trim slow moving items, eliminate obsolete items.

Accounts Receivable — Review status of accounts; if excessively high without the use of a finance charge, customers are operating on the firm's money.

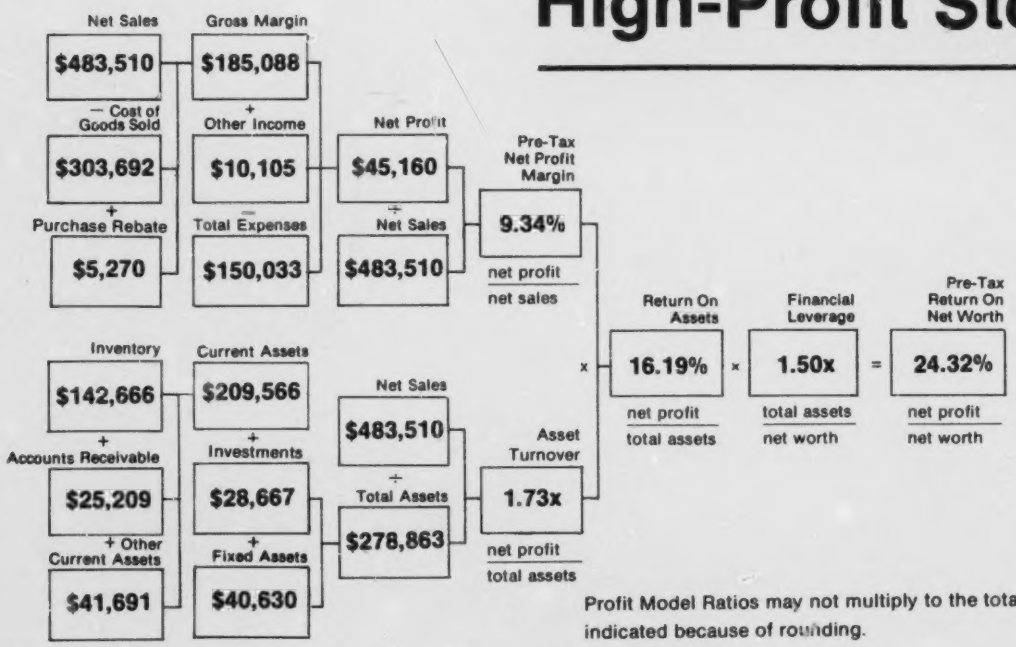
Fixed Assets — Divide Net Sales by Fixed Assets; a substantially lower than industry average ratio indicates excessive investments resulting in idle capacity.

Leverage

The amount of borrowed funds has a number of major implications 1) creditors look to owner supplied funds to provide a margin of safety; 2) by raising funds through debt, owners gain the benefit of maintaining control of the firm with a limited investment and 3) if the firm earns more on borrowed funds than it pays in interest, return to owners is magnified.

Presented below is the Strategic Profit Model for the High Profit Stores category. Retailers interested in improving their performance should carefully review this model, as it represents the level of excellence achieved by industry leaders.

High-Profit Stores



Profit Model Ratios may not multiply to the totals indicated because of rounding.

Departmental Sales

The Departmental Sales section of the Financial Report offers a variety of information for fourteen major departments carried in the hardlines industry's retail outlets.

Departmental Contributions
Shown for each department are the percent of firms handling, the share of net sales, sales floor space, inventory, cost of goods sold and dollar productivity per square foot of sales area. These data are for **Handling Firms Only.** All stores participating in the survey that do not carry a certain department were not included in the computation of the average data for that department.

As an example to help understand the meaning of the **Hardling Firms Only** data, suppose the Lawn and Garden Department in the Financial Report shows 90% of the reporting stores have a Lawn and Garden Department. The data shown for the Lawn and Garden Department are only for the 90% of stores who carry Lawn and Garden Equipment. Thus, **Handling Firms Only** data enable an operator to compare a specific department's data with the average of other operators who also carry that department.

The Financial Report also presents an **Average Store Profile.** This profile shows data for a hardware store handling all departments and allows a comparison of the relationships among departments within a single operation.

But what of a hardware store that does not carry all the major departments. How can the relationships of only carried departments be compared to a total store industry average? The necessary data are contained in the Report, only a simple computation is required. First, for each department carried, add the industry average percent of Net Sales. The sum of these percentages is then divided into each individual departmental percent. The resulting percentages are the **Average Store Profile** for a hardware store carrying only these departments.

As an example, a hardlines retailer carries only four departments — Hardware, Hand Tools, Paint & Home Decorating and Automotive Supplies. Assume The Financial Report indicates percent of Net Sales for handling firms for each department to be:

Hardware	15.0%
Hand Tools	10.0%
Paint & Home Decorating	20.0%
Automotive Supplies	5.0%

The total of these percents equals 50.0%. Now divide the total (50.0%) into each of the individual department's percent:

$$\text{Hardware} \quad \frac{15.0}{50.0} = 30.0\%$$

$$\text{Hand Tools} \quad \frac{10.0}{50.0} = 20.0\%$$

$$\text{Paint \& Home Decorating} \quad \frac{20.0}{50.0} = 40.0\%$$

$$\text{Automotive Supplies} \quad \frac{5.0}{50.0} = 10.0\%$$

The resulting percentages' total should equal 100.0% and are the **Average Store Profile** for an outlet handling only Hardware, Hand Tools, Paint & Home Decorating, and Automotive Supplies. This same procedure can be followed to determine the Average Store Profile for the percent of sales floor space, inventory and cost of goods sold.

Productivity
There are a number of ways in which to evaluate departmental performance including margin, turnover, sales productivity and margin contribution. The table presented on the following page, examines these departmental evaluation criteria.

The first evaluative measure is departmental gross margin.

On the basis of margin alone, the following departments would be considered high performing departments: hardware, plumbing, heating & cooling and electrical supplies. Margin evaluations alone would indicate major appliances & home entertainment to be below average performance.

An additional measure is the sales to inventory ratio (net sales divided by average inventory at cost). On the basis of this ratio alone, electrical supplies, lawn & garden and miscellaneous goods exceed all the other department averages.

An excellent way for hardware store operators to evaluate departmental performance is through the concept of gross margin return on inventory investment or GMROI. GMROI considers both margin and turnover. GMROI is computed by taking the margin percentage times the sales to inventory ratio. Lawn and Garden's GMROI, for example, is 1.48 which means $1.48 in margin is returned for each $1.00 invested in lawn and garden inventory. Resultant GMROI figures give hardware store operators a way to measure departmental performance across diverse merchandise lines. Traditionally high margin, low turnover departments may be compared with traditionally low margin, high turnover departments.

Individual hardware store operators may utilize other evaluations such as profit on sales or return on investment by department. Nearly all departmental evaluation methods rely on some type of inventory control system enabling operators to measure sales and purchases at least at the departmental level.

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Departmental Contribution

Department	Handling Firms Only: % Handling	% of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold	$ Sales Per Sq. Ft.	Average Store Profile: % of Net Sales	% of Sales Floor	% of Inventory	% of Cost of Goods Sold
Hardware	100.0	19.7	17.2	18.9	17.6	99.54	19.7	17.2	18.9	17.6
Hand Tools	100.0	5.2	5.8	5.9	5.8	77.88	5.2	5.8	5.8	5.8
Power Tools & Accessories	100.0	3.0	3.3	3.4	3.5	79.01	3.0	3.3	3.4	3.5
Plumbing, Heating & Cooling	100.0	11.0	10.7	11.4	11.3	89.38	11.0	10.7	11.4	11.3
Electrical Supplies	100.0	7.6	7.0	7.2	7.4	94.39	7.6	7.0	7.2	7.4
Paint & Home Decorating	94.7	12.5	12.5	11.4	11.5	86.92	11.8	12.3	11.3	11.4
Lumber	12.3	4.9	3.4	1.8	2.8	125.42	.6	.4	.5	.5
Building Materials	24.9	8.4	7.9	4.4	6.6	92.33	2.0	1.5	1.6	1.7
Lawn & Garden	88.7	12.9	12.1	12.4	14.1	92.66	11.3	11.2	10.8	12.6
Housewares	88.0	11 2	15.0	12.7	10.4	64.89	9.8	13.8	11.8	10.0
Automotive Supplies	60.5	4.4	4.5	4.4	3.9	85.07	2.6	3.1	2.7	2.7
Major Appliances & Home Entertainment	34.6	9.3	7.6	10.0	9.3	106.30	3.2	2.8	3.0	3.3
Sporting Goods & Outdoor Living	70.1	6.5	5.7	6.1	5.6	98.99	4.5	4.3	4.8	4.4
Miscellaneous Goods	69.8	11.6	10.3	10.2	10.3	97.90	7.7	6.6	6.8	7.8
							100.0	100.0	100.0	100.0

Productivity

Department	Typical Store Profile: Gross Margin %	Sales To Inventory Ratio	GMROI
Hardware	43.5	3.6x	1.57
Hand Tools	37.2	3.8x	1.41
Power Tools & Accessories	34.3	3.8x	1.30
Plumbing, Heating & Cooling	41.8	3.9x	1.63
Electrical Supplies	41.2	4.0x	1.65
Paint & Home Decorating	39.8	3.9x	1.55
Lumber	35.8	3.0x	1.07
Building Materials	39.2	3.0x	1.18
Lawn & Garden	34.5	4.3x	1.48
Housewares	36.6	3.1x	1.13
Automotive Supplies	36.4	3.8x	1.38
Major Appliances & Home Entertainment	26.6	3.8x	1.01
Sporting Goods & Outdoor Living	34.5	3.2x	1.10
Miscellaneous Goods	34.5	4.2x	1.45

New Store Data

To determine the feasibility of a new hardware store, four distinct planning phases are required:

—Preliminary Financial Analysis
—Market Analysis
—Formal Financial Analysis
—Development of Store Image

Phase I
As the ultimate criterion of feasibility for a proposed hardware operation will be profitability, the planning process should begin with a preliminary financial analysis.

The investment required for a new retail hardware store can range between $25 to $60 per square foot, depending on locality, size, occupancy position and personal preferences.

Based on the desired size of the operation, utilize the industry operating averages presented in NRHA's Management Report to estimate sales volumes, gross margins, salaries and other costs of doing business to project Net Profits and Return on Investment for the proposed hardware operation. An important fact to remember is that there is a direct correlation between the square feet of sales area, average dollar inventory and the attainable sales volumes.

If the preliminary financial analysis meets predetermined individual requirements in attainable salary levels, Net Profit and Return on Investment, the second phase of planning may be initiated.

Phase II
Site Location
The market area to be served by the proposed hardware operation will be primarily determined by the selected site location. Nine major aspects of varying importance determine the worth of a given retail hardware store location. These aspects are listed below.

Shopping Pull — Businesses in the area which would help draw consumers to the area.

Parking Facilities — Adequate parking requires two to two and a half square feet of parking area for every square foot of selling area.

Walk-In Traffic
Traffic Count and Patterns
Accessibility
Visibility
Congestion
Shopping Ease — The ability for the consumer to get out of the store from the point of check-out to his or her auto with a large item.

Ingress and Egress — The ease with which customers can drive to or from the street to the parking area.

To select the best location, each prospective site should be assessed on the nine aspects to determine overall worth as a retail location. A subjective analysis of all aspects for each potential site available combined with an analysis of the cost for property and improvements will provide the basis for selecting the prime site location(s) for further analysis.

Primary Trade Area
After the selections of site(s), for the purpose of analysis it is necessary to bring the market area to be served to manageable proportions. Therefore a Primary Trade Area for the selected site location must be defined. The Primary Trade Area represents the geographical boundaries from which the majority of do-it-yourself consumer business for the proposed operation will be derived. These geographical boundries of the Primary Trade Area are affected by many variables. The most influencing variables are the proposed operation's size and merchandise mix, driving time to site location, the proximity of retail activity concentrations and natural or manmade barriers.

Size — The ability to draw consumers from a distance to a retail outlet is directly related to the size of the display area and the number, depth and breadth of departmental lines carried.

Driving Time — Typically a 5,000 square foot store can draw consumers within a 5 to 10 minutes driving time, a 10,000 square foot store drawing within 10 to 15 minutes driving time.

Other Retail Stores — Proximity to highly active retail areas helps to share the burden of drawing consumers to the area for shopping purposes.

Barriers — Barriers affecting accessibility to a selected site location can dramatically alter the boundries of the Primary Trade Area.

The feasibility of a new hardware store within a given Primary Trade Area is dependent on two major factors, the demographic characteristics of the consumers and the number and strength of the competitors.

Consumer Analysis
From past NRHA research it has been learned that demographic variables relating to population growth rate, income levels and incidence of owner-occupied housing are the most critical variables in predicting a consumers' propensity to spend on hardlines.

Population Growth Rate — A favorable environment for a new hardware store requires that the Primary Trade Area experience a minimum of .5 percent annual increase in population.

Income Levels — Consumers with middle to upper-middle income have the greatest propensity to purchase hardlines, lumber and building materials.

Type of Housing — Consumers who own their own homes will spend more per year for hardlines, lumber and building materials than renters, mobile home or condominium owners.

Competitive Analysis
Although consumer demographic variables may indicate a healthy environment for a new retail hardware store, feasibility for the proposed operation cannot be determined without an analysis of the competition.

Depending on merchandise mix, primary hardlines sales represent approximately 65 to 85 percent of the total sales volume for an average hardware store. Primary hardlines include: hardware, tools, electrical, plumbing, lawn and garden, paint and paint sundries. As the primary hardlines represent the substantial majority of sales for a hardware store, an analysis to determine the feasibility of a new store should focus on these lines.

Retail stores which carry competitive lines and would be likely to be shopped by Primary Trade Area residents should be visited and assessed. These retail outlets include all hardware stores, home centers, lumber/building material outlets, mass merchandisers, discount stores, variety and drug stores and specialty stores.

The retail competitors should be delineated by location and preferably spotted on a map. All competitive departmental lines should be assessed on a rating scale. A scale of 1 to 5 has been utilized with a rating of 1 indicating that the retailer offers a minimal selection of items and a 5 indicating an excellent departmental offering in both depth and breadth of line.

In this illustration the lawn/garden and paint departments are offered in depth by several strong competitors, indicating a possible market saturation in these lines. Plumbing has a fewer number of competitors carrying, and no competitor offers a strong plumbing departmental presentation. The hardware, tools and electrical departments have many competitors, but only a few strong competitors.

To be a full line hardware store, the merchandise mix must include hardware, tools, plumbing, electrical, lawn/garden, paint and paint sundries. However, due to the competitive structure of the Primary Trade Area and surrounding Market Area, strategic market thrust can be obtained by offering above average selections in departmental lines that are in poor supply.

In the illustration, based on the competitive situation and desired store image, the proposed operation should plan the following merchandise mix: Hardware — average to above average; Hand Tools — average; Electrical — average to above average; Plumbing — above average; Lawn/Garden — below average-heavy seasonal promotion only; Paint — average to below average; Paint Sundries — average to below average; Auto Supplies — average to above average.

Illustration	Hdwe.	Tools	Elec.	Plbg.	Lawn/ Gdn.	Paint	Sun- dries	Auto Splys.
Site Area								
Variety Store	1	1	2	1	3	2	1	2
Drug Store			1		1			
Downtown								
Home Center	5	4	5	4	4	5	5	3
Paint Store						5	2	
Auto Supplies		1	1					5
East								
Hardware Store	4	3	4	2	5	3	3	4
K-Mart	4	5	3	3	5	5	4	5
Lumber Outlet	2	1	2	2	1	3	3	
South								
Sears	4	5	4	4	5	5	4	5
Penney	3	4	4	3	4	4	3	5
Sherwin Williams					5	5		
Super Drugs	2	1	1	2	3	2	1	2
Total	25	25	27	21	36	39	26	26
# Of Competitors	8	9	10	8	10	10	9	8

Phase III

If the analysis indicates a positive environment in both the consumer and competitive characteristics of the Primary Trade Area, a formal financial analysis should then be developed. Unlike the preliminary analysis, this analysis should include the actual cost of land, building fixtures and equipment to determine the total investment required.

The analysis should also include a pro-forma income statement to estimate the profits (losses) for the first three years of operation. Wherever possible actual operating expenses should be utilized — rent, taxes, utilities, etc. For those expense items that cannot be determined, NRHA's The Management Report will provide guidelines for estimation. Dependent on the projected profit (losses), total capital requirements including working capital will be determined.

One very important factor to remember is that a typical new store will take three years to reach maximum productivity and efficiency or what is termed "store maturity". Therefore do not be overly optimistic on setting performance goals. Based on 1982 dollars, the average new retail hardware store will achieve sales volumes of only $60 to $70 per square foot in the first year of operation with a second year productivity of $70 to $80 per square foot.

Phase IV

Through a combined analysis of all planning phases, the consumer store image is developed.

Owner's Economic Constraints
Customer Identification
Posture of Major Competitors
will determine
Size of Facility
Merchandise Mix
Service Level
Price Statement
will determine
Store Layout, Design and Decor
which relays
Consumer Store Image

Affiliated Associations

California Pacific Southwest Hardware Association
William R. Maze
122 Ninth St.
San Francisco, CA 94103
(415) 552-0536

Canadian Retail Hardware Association
Thomas M. Ross
6800 Campobello Road
Mississauga, Ontario, Canada L5N 2L8
(416) 821-3470

The Hardware Association of the Carolinas
Eleanor Brigance
412 Louise Avenue
Charlotte, NC 28204
(704) 332-3141

Illinois Retail Hardware Association
John C. Friel
215 West Prospect Ave.
Mt. Prospect, IL 60056
(312) 392-8700

Indiana-Kentucky Hardware Association, Inc.
Richard L. Russell
4120 N. Keystone
Indianapolis, IN 46205
(317) 547-5471

Intermountain Association
R.M. Henderlider
2230 Main St.
Boise, ID 83706
(208) 342-7779

Iowa Retail Hardware Association
John C. Phillips
520 35th St.
Des Moines, IA 50312
(515) 274-0401

Michigan Retail Hardware Association
Thomas A. Aitken
4414 S. Pennsylvania Ave.
Box 30085
Lansing, MI 48909
(517) 394-1710

Mid-South Hardware Association
W.F. Davis
Suite 119, Cavalier Bldg.
95 White Bridge Rd.
Nashville, TN 37205
(615) 352-6742 or (615) 352-6743

Minnesota-Dakotas Retail Hardware Association
Hal Marsolais
3033 Excelsior Blvd.
Minneapolis, MN 55416
(612) 929-4691

Montana Hardware and Implement Association
Blake Wordal
3087 N. Montana Ave.
P.O. Box 4459
Helena, MT 59601
(406) 442-1590

Mountain States Hardware and Implement Association
Max L. Sauder
1380 Carr St.
Lakewood, CO 80215
(303) 233-2101

New England Hardware Dealers Association
Leonard J. Palmisano
Lakeside Office Park, Door #10
599 North Ave.
Wakefield, MA 01880
(617) 246-1510

New York State Retail Hardware Association
Larry Bowser
6500 Joy Road
East Syracuse, NY 13057
(315) 437-7318

Ohio Hardware Association
Joe B. Bailey, Jr.
1540 W. Fifth Ave. (43212)
P.O. Box 1828
Columbus, OH 43216
(614) 486-5278

Pacific Northwest Hardware and Implement Association
Mac Smith
333 S.W. Fifth Ave.
Room 606
Portland, OR 97204
(503) 226-1641

Pennsylvania and Atlantic Seaboard Hardware Association
J. Wayne Tisdale
949 East Park Dr.
Harrisburg, PA 17111
(717) 564-7011

Southern Association
R.L. Ricker
2111 Smith St.
Orange Park, FL 32073
(904) 264-7525

Southwest Hardware and Implement Association
R.B. Allen
4629 Mark IV Parkway
Ft. Worth, TX 76106
(817) 625-5562

Hardware Association of the Virginias
Leonard Holdren
1906 N. Hamilton St.
Richmond, VA 23230
(804) 358-6511

Western Retail Implement and Hardware Association
J. Keith Melvin
638 W. 39th St. (64111)
P.O. Box 19264
Kansas City, MO 64141
(816) 561-5323

Wisconsin Retail Hardware Association
Robert L. Gast
1421 Strongs Ave.
Stevens Point, WI 54481
(715) 346-7600